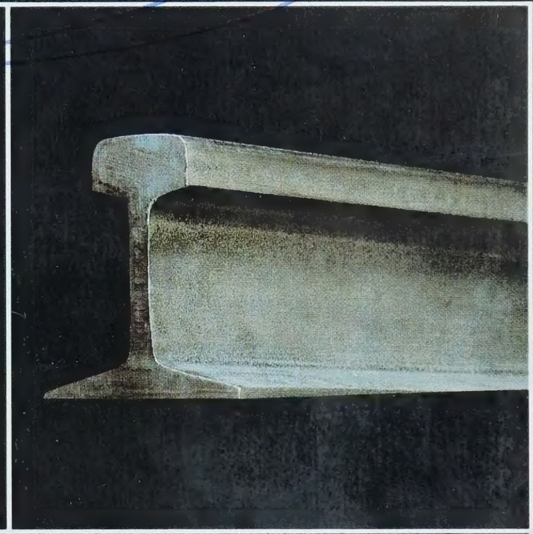
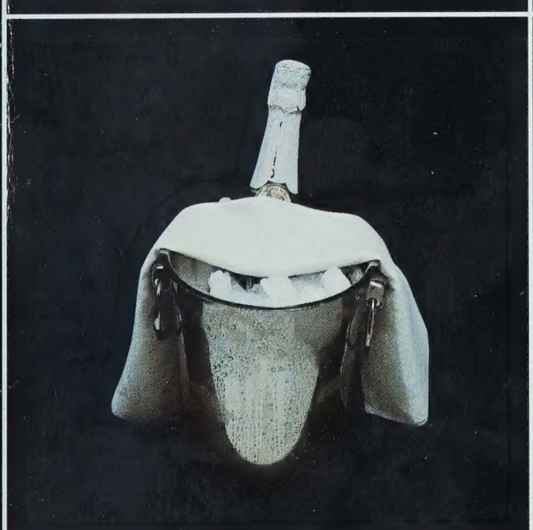
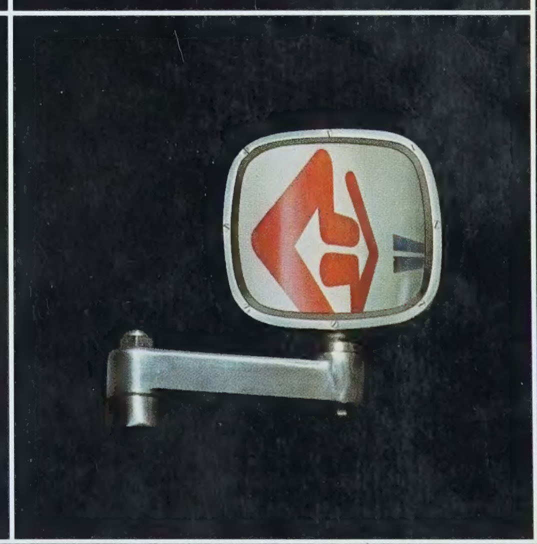
ANNUAL REPORT 1979

CANADIAN NATIONAL







CN	**CN RAIL** *The steel wheel symbolizes what Canadian National's largest division does best — the movement of vast quantities of a wide variety of goods efficiently and economically in the national interest.*	**GRAND TRUNK CORPORATION** *Steel rail connects the Canadian railway system with the industrial heartland of the United States through CN-owned railways grouped under the Grand Trunk Corporation.*
CN TELECOMMUNICATIONS *The future of business communication is here today as word processing terminals enable more and more companies to send and receive data in volume and with speed and accuracy undreamed of only a few years ago.*	**CN TRUCKING** *The chrome air horns of a transcontinental truck-trailer rig; one of the thousands of units belonging to CN's trucking subsidiaries serving Canadians across the nation.*	**CN EXPRESS** *A 250-kilogram crate of machine parts represents the kind of traffic that CN Express moves with speed, safety and efficiency.*
CN HOTELS *Knowledge and attention in the serving of fine wine is typical of the service and amenities provided by CN Hotels across Canada.*	**CN MARINE** *Ferry and Coastal activities on the East Coast are an important part of CN's services to Canada. The compass symbolizes safe navigation over sea routes that are often beautiful and sometimes dangerous.*	**TERRATRANSPORT** *A new name and a new symbol indicate the direction of CN's transportation services in Newfoundland. A bus driver's rear-view mirror reflects the new double arrow symbol of TerraTransport.*

La version française du présent rapport est disponible sur demande à l'adresse suivante:

CANADIEN NATIONAL
Service des Affaires publiques
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ANNUAL REPORT 1979

CANADIAN NATIONAL

SYSTEM
Highlights

	1979	1978	Increase (Decrease) Amount	Percent
Financial Results				
Revenues	$ 3,294.3	$ 2,900.2	$ 394.1	13.6
Interest expense — net	96.3	95.2	1.1	1.2
Net income	208.2	136.1	72.1	53.0
Dividend	41.6	27.2	14.4	52.9
Return on average investment %	7.5	6.0	1.5	25.0
Capital Expenditures				
Total expended	558.3	375.0	183.3	48.9
Assets and Working Capital				
Current assets	869.9	726.1	143.8	19.8
Working capital	176.5	157.4	19.1	12.1
Property, plant and equipment	3,971.2	3,628.3	342.9	9.5
Total assets	5,143.1	4,531.1	612.0	13.5
Capital Structure				
Long-term debt	1,505.2	1,322.3	182.9	13.8
Equity	2,764.0	2,493.1	270.9	10.9
Debt ratio %	35.3	34.7	0.6	1.7
Employees				
Average number of employees	76,592	78,247	(1,655)	(2.1)
Average annual wage per employee	$20,589	$18,260	$ 2,329	12.8

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BOARD OF DIRECTORS

*Member of the Audit Committee
**Member of the Compensation Committee

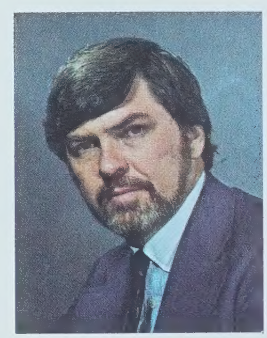
**R. A. Bandeen, Ph.D., LL.D., D.C.L.
Montreal

*Pierre Des Marais II
Montreal

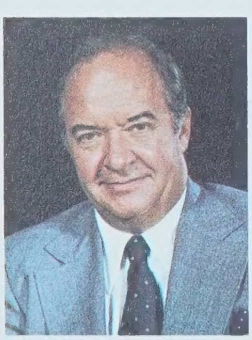
Austin E. Hayes
Halifax

J. S. Hinds, Q.C.
Sudbury

C. Kroft
Winnipeg



D. G. A. McLean
Vancouver



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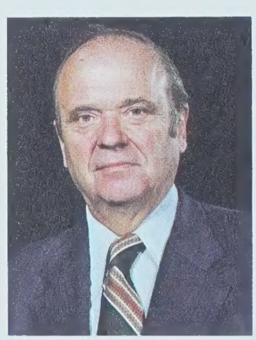
**H. C. Pinder
Saskatoon



*Ewart A. Pratt
St. John's, Nfld.

**F. D. Rosebrugh
Toronto

*/**W. J. Vancise, Q.C.
Regina

**J.A. Dextraze, C.C., C.B.E.,
C.M.M., D.S.O., C.D., LL.D.
Chairman
Montreal

To the Honourable
The Minister of Transport
Ottawa

Dear Sir:

The Board of Directors is pleased to submit the Annual Report of Canadian National Railways for 1979.

The Report shows that in a year of economic slowdown the Corporation was able to operate profitably and also to improve the extent and quality of its services to the Canadian people.

These excellent results represent a continuation of the steady improvement that has marked the performance of Canadian National in recent years. An important part of this improvement can be attributed to carefully planned changes in the capital structure and in the management organization of the Corporation. Another important factor has been the understanding and cooperation of Government at various levels which have helped to make the changes possible and effective. Most of all, however, the good results of 1979 and the years immediately preceding flow from the hard work, knowledge and skills of the employees of Canadian National.

I am privileged to express, on behalf of the Board of Directors, our thanks for the good work performed at all levels of the organization, our pride in association with a successful enterprise and our belief that Canadian National will continue to increase and improve its services to Canada in the years ahead.

Yours sincerely,

J. A. Dextraze
Chairman

OFFICERS

(as at January 1, 1980)

J. A. Dextraze, C.C., C.B.E., C.M.M., D.S.O., C.D., LL.D.
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Vice-President and General Counsel

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S. D. H. Thomas
Corporate Comptroller

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CN Rail
(to November 30)

R. E. Lawless
President
CN Rail
(effective December 10)

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J. L. Cann
Vice-President
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R. J. Hansen
Vice-President
Prairie Region

Y. H. Masse
Vice-President
St. Lawrence Region

J. H. D. Sturgess
Vice-President
Marketing

R. A. Walker
Vice-President
Mountain Region

A. R. Williams
Vice-President
Great Lakes Region

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President
CN Holdings

J. G. Cormier
President
CN Hotels

J. B. Griffith
General Manager
CNTL Trucking Subsidiaries

A. J. Kuhr
President and General Manager
CN Telecommunications

R. G. Messenger
President
TerraTransport

C. Perron
President and General Manager
CN Express

R. J. Tingley
President and General Manager
CN Marine Inc.

CN Investment Division

T. Cedraschi
President and Chief Executive Officer

Grand Trunk Corporation

J. H. Burdakin
President

Canac Consultants Limited

V. R. Cox
President and Chief Executive Officer

Wilfred Callihoo supervises the loading of concrete rail ties produced for CN at the Conforce-Costain plant in Edmonton. Important to the local economy, the plant has produced more than a million such ties for CN.

CN uses a new, sophisticated machine to lay concrete ties and welded rail on its main line in Western Canada. Part of an upgrading program to accommodate increased traffic.

Unit Train arriving at Thunder Bay with Alberta coal for an Ontario Hydro power plant.

PRESIDENT'S REVIEW

Canadian National has had a successful year.

Volume of business and total revenues increased to record levels. Expenses, while also at record levels, were held below revenues. The resulting profit ($208.2 million) enabled us to pay a dividend of $41.6 million (20% of the profit) to the federal treasury and to plough the remaining $166.6 million back into new plant and equipment.

Statement of Income

	1979	1978
Revenues	$3,294.3	$2,900.2
Expenses	3,011.3	2,686.5
Operating income	283.0	213.7
Other income	24.8	19.0
Interest (net)	96.3	95.2
Income tax (net)	3.3	1.4
Net income	$ 208.2	$ 136.1

These results reflect efficient management of the Corporation in an economic climate that was generally unfavourable to expansion of business and to profitable operation. Canada's Gross National Product increased by only 2.9% in real terms during the year, compared with an increase of 3.4% the previous year. Despite this slowdown the Corporation was able to generate significant improvement in the volume of new business, with corresponding increases in total revenues. An improvement of 6.8% in revenue ton miles through railway operations represents a notable achievement in this respect. New business and higher revenues were also generated through telecommunications, trucking and marine services.

Express operations were a disappointment in that substantially higher expenses more than offset higher revenues and produced a loss of $47.2 million. One of the Corporation's priorities during the coming year will be to reverse this loss. Late in the year a joint union-management task force was established to help achieve this objective.

Inflationary pressures brought about some rate increases during the year. These higher rates, together with earnings from the higher volume of business, accounted for most of the increase in revenues. Receipt of Government subsidy payments of $35.0 million due under the Railway Act for prior years and a sharp reduction in losses on passenger services (see under CN Rail) were also major contributors to the financial improvement of 1979.

Total revenues and net income would have been considerably higher were it not for losses associated with the handling of grain at statutory (Crow's Nest) rates and with the operation of rail commuter services in Montreal. Losses of about $95.0 million have been estimated for the movement of grain in 1979 — approximately 10% higher than in 1978. The Montreal commuter service loss in 1979 was $7.3 million — an increase of $2.1 million over the previous year. Rate action and service reductions compensated only partially for this worsening.

Five Year Financial and Statistical Summary

		1979	1978	1977	1976	1975
Operations	Revenues	$ 3,294.3	$ 2,900.2	$ 2,622.6	$ 2,405.8	$ 2,025.3
	Operating income	283.0	213.7	176.3	131.5	(68.1)
	Interest expense — net	96.3	95.2	154.8	129.0	113.4
	Net income (loss)	208.2	136.1	28.0	11.8	(178.7)
	Dividend	41.6	27.2	—	—	—
	Return on average investment %	7.5	6.0	4.8	3.5	—
Capital Expenditures	Total expended	558.3	375.0	372.7	411.5	444.4
	Capital value of leased rail and rolling stock acquired	—	—	6.4	14.8	62.0
Assets and Working Capital	Current assets	869.9	726.1	690.9	589.5	542.3
	Working capital (deficiency)	176.5	157.4	101.4	25.3	(12.6)
	Property, plant and equipment	3,971.2	3,628.3	3,498.3	3,312.4	3,887.5
	Total assets	5,143.1	4,531.1	4,675.7	4,393.9	4,947.5
Capital Structure	Long-term debt	1,505.2	1,322.3	1,568.3	2,222.5	2,066.1
	Equity	2,764.0	2,493.1	2,384.3	1,496.8	2,224.6
	Debt ratio %	35.3	34.7	39.7	59.8	48.2
Traffic	Revenue ton miles freight and express (billions)	84.6	79.2	74.5	72.7	69.3
	Express shipments handled (millions)	8.9	8.5	7.5	7.5	8.8
Employees	Average number for year	76,592	78,247	78,671	80,073	82,256
	Average annual wage per employee	$20,589	$18,260	$16,958	$15,545	$13,776

Inflation was mainly responsible for an increase in expenses of $324.8 million or 12.1%. Included in the increase were higher wage awards, material and fuel price increases, new Ontario and New Brunswick diesel fuel taxes, additional pension costs and the expenses of handling the greater volume of business. Keeping the expense increase to 12.1% represents a notable managerial achievement in view of inflation and the increased workloads.

The net income of $208.2 million earned in 1979 represents a return on investment of 7.5%. This is a better return than in the previous year and reflects continuation of the steady improvement in the financial performance of the Corporation that has taken place over the past five years.

The revision of the capital structure of the Corporation which took place in 1977 has been an important factor in the improvement in financial performance. So also have been changes in the management structure designed to fit the divisional form of organization introduced in 1976. Delegation of appropriate authority and responsibility to the divisions continued in 1979 and there were further changes in the management structure including some aimed at reducing the direct administrative burden carried by the President and Chief Executive Officer.

Among the changes was the establishment of the office of President, CN Holdings; responsible for providing executive direction to the non-rail divisions of the Corporation including CN Telecommunications, CN Trucking, CN Express, CN Hotels, Real Estate, CN Marine and TerraTransport. TerraTransport was established during the year to manage the transportation services provided by the Corporation in the Province of Newfoundland.

The following pages report on the performance of each division during 1979 and on other corporate matters. The measurement of financial performance of each division was refined during the year by assigning a share of the interest payments made by the Corporation to each division. The 1978 results have been re-stated to take this into account. The operating ratio given for each division is a good indicator of divisional performance.

The performance of CN in 1979 can be described as a payoff effect of the financial revision and the organizational changes of recent years. CN now has in place a corporate structure appropriate to the needs, objectives and role of the Corporation today. The performance also reflects hard work and the application of managerial and technical skills of a high order at all levels of the Corporation. The past year has demonstrated that CN's people have the knowledge and ability to operate a great modern business enterprise successfully against strong competition and in a difficult economic climate.

The Corporation will need to make full use of these assets as it faces the challenges and opportunities of the coming years. Some difficulties loom in the immediate future. The slowdown in economic activity which marked 1979 will probably continue well into 1980. This could mean little or no growth in the Canadian GNP during 1980 and a pause in the steady financial improvement CN has achieved in the past five years. We expect, however, that good operating and managerial skills, including tight control over expenses, will enable us to at least hold our own in 1980 and to continue, over the long run, to improve our already important contribution to the industrial strength and general prosperity of Canada.

R A Bandeen

R. A. Bandeen
President and Chief Executive Officer

CN Craftsman Claude L'Heureux works on the trucks that will go under one of the new cabooses being constructed as part of a capital project at Pointe St. Charles shops in Montreal.

CN RAIL
Highlights

	1979	1978	Increase (Decrease) Amount	Percent
Revenues	$2,333.9	$2,088.2	$245.7	11.8
Expenses	2,026.8	1,795.2	231.6	12.9
Operating income	307.1	293.0	14.1	4.8
Other income	(5.9)	(4.4)	(1.5)	(34.1)
Interest expense	66.6	64.2	2.4	3.7
Income	$ 234.6	$ 224.4	$ 10.2	4.5
Operating ratio	86.8	86.0	0.8	0.9
Return on average investment %	9.8	—	—	—
Revenue ton miles (billions)	78.8	73.7	5.1	6.9
Capital expenditures	$ 313.2	$ 270.3	$ 42.9	15.9
Employees — average number	50,691	49,757	934	1.9

CN RAIL

CN Rail performed well in 1979 achieving significant increases in revenue ton miles in all market segments and showing an improved profit position at the end of the year.

Good management and efficient operation of the Division are reflected in the financial results which were achieved despite inflation and a general slowdown in the economy, partially offset by a good volume of business growth in Western Canada.

Important factors in the improved financial performance included the development of profitable new business in some areas, the application of higher rates in others and strict control of expenses. Capital investment in new plant and equipment and the use of advanced technology contributed to improved efficiency and productivity.

A major adverse factor affecting the 1979 financial result was a shipping accident involving considerable damage to CN Rail's Second Narrows Bridge across Burrard Inlet near Vancouver. The October accident caused considerable revenue loss and heavy expenses for repairs to the bridge and for alternative freight transportation arrangements.

Revenues for 1979 amounted to $2,333.9 million, an improvement of $245.7 million, or 11.8% over 1978. The distribution of the revenues is shown in the following table:

	1979	1978
Carload services	$1,744.6	$1,512.6
Intermodal services	252.2	216.0
Express contract	22.1	23.5
Passenger — contract	226.0	248.8
— other	4.4	6.3
All other services	14.0	9.6
Government payments	70.6	71.4
	$2,333.9	$2,088.2

Passenger contract revenues of $226.0 million were earned in 1979 and, from April 1, responsibility for all intercity services was taken over by VIA Rail Canada Inc. Government payments of $70.6 million were received as recovery of losses incurred in operating and maintaining subsidized branch lines, as well as subsidies for At and East grain traffic. Government payments related to current year losses decreased by 1.1% in 1979.

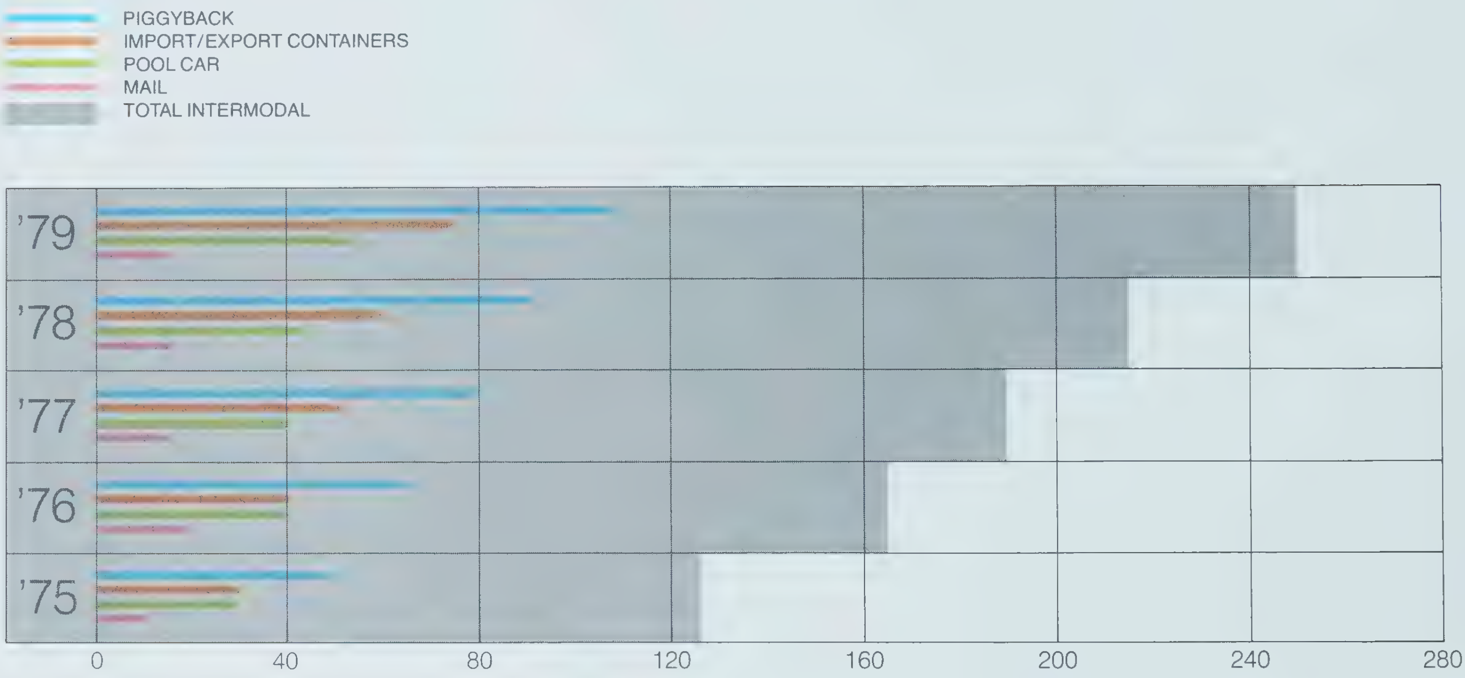
Market segment revenues were led by Fuels and Chemicals, mainly on the strength of a 14% volume increase for sulphur and potash. Coal also showed significant gains reflecting a full year effect of the Alberta-to-Thunder Bay traffic for Ontario Hydro.

Export demand for Forest Products and Ores, Minerals and Metals continued strong. Good performance of Construction Materials stemmed mainly from the domestic movement of cement.

Maintenance and improvement of traffic handling facilities continued to be a prime concern, with activity being concentrated on those main lines and terminals carrying the heaviest traffic. By the end of 1979, 18% of the Capreol-to-Winnipeg and Edmonton-to-Vancouver mainline had been laid with concrete ties. About 70% of the main line from Capreol to Vancouver, and 25% of the entire system, is now equipped with continuous welded rail. New production levels were achieved with the concrete tie-laying machine and a series of innovations was made to new automated rail-laying machines to obtain better productivity. Safety in operations continued to receive attention

INTERMODAL SERVICES REVENUES 1975-1979

Millions of dollars



at all levels and the downward trend in train and yard movement accidents continued in 1979.

The accelerated program of freight car and locomotive maintenance that commenced in late 1978 carried on throughout 1979. The cost-sharing arrangement with the Federal Government to rehabilitate a total of 3,000 box cars for grain service was continued and 1,400 were completed in 1979.

Capital expenditures totalled $313.2 million, an increase of $42.9 million, or 15.9%.

	1979	1978	Increase
Road property	$262.1	$237.2	$24.9
Rolling stock	39.9	30.0	9.9
Intermodal equipment	11.2	3.1	8.1
	$313.2	$270.3	$42.9

In addition to basic rail, tie and ballast renewal programs, selective double-tracking and siding-extension projects continued under the plant improvement program. Other facility investments were made in order to improve operating effectiveness and enhance CN Rail's position in various markets. The new Brampton intermodal facility went into operation during the last quarter of 1979.

Investment in rolling stock increased, principally due to the acquisition of over 300 new freight cars and 400 intermodal trailers. For the first time in several years, new road freight locomotives were required and ten units were received late in the year.

CN PASSENGER

CN's Passenger Division showed a loss of $9.1 million compared with a loss of $55.2 million the previous year. The improvement mainly reflects the completion during the year of the transfer of responsibility for intercity passenger services to VIA Rail Canada Inc. Responsibility for the Newfoundland Roadcruiser bus service was transferred to TerraTransport — the CN affiliate set up to provide transportation services in Newfoundland.

The following table summarizes the financial results:

	1979	1978
Revenues		
— Intercity and other services	$208.0	$ 98.2
— Government payments	29.6	165.0
	237.6	263.2
Operating expenses	246.8	318.4
Operating income (loss)	(9.2)	(55.2)
Other income	0.1	—
Income (loss)	$ (9.1)	$ (55.2)
Operating ratio	103.9	121.0

CARLOAD AND INTERMODAL SERVICES REVENUES AND REVENUE TON MILES

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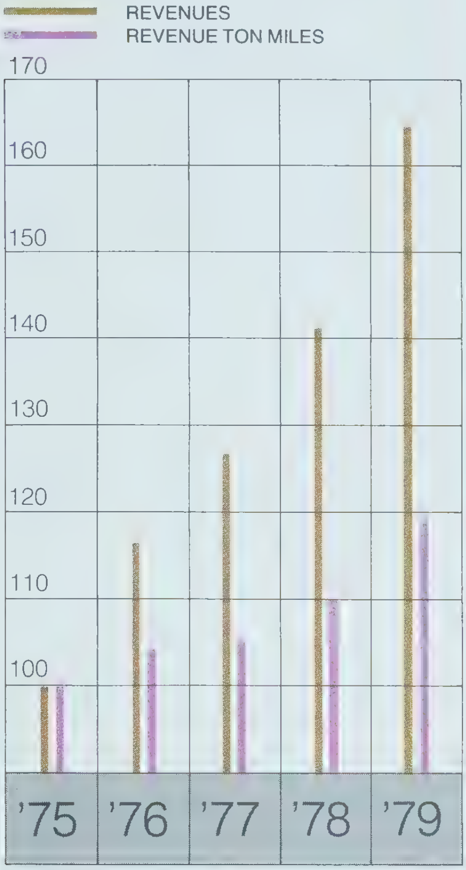


Government payments represent partial compensation for losses incurred in non-rationalized services. The 1979 payments cover the partial compensation up to April 1, 1979, when VIA Rail Canada Inc. took over all intercity rail services.

The reductions in revenues and expenses were due to the transfer of passenger staff to VIA Rail Canada Inc. and to the reduction in workload following modification of intercity passenger train services as approved and ordered by the Canadian Transport Commission with the reduction in revenues being tempered by the compensation arrangement with VIA.

Intermodal traffic is increasingly important to CN. A new facility of Brampton, Ont., speeds the road-rail interchange.

Grand Trunk Western conductor Lorenzo Robinson directs switching operation at the Chicago gateway.

GRAND TRUNK CORPORATION

The Grand Trunk Corporation (holding company for CN's three wholly-owned U.S. railways) operated profitably in 1979, contributing $29.6 million (Canadian) to CN's income before taxes.

The operating income of Grand Trunk Corporation was up by $2.2 million or 10.0% from the previous year, a reflection of the excellent performance of the Duluth, Winnipeg and Pacific which bettered its operating income by 45.3%, and the better than anticipated results on the Central Vermont. On Grand Trunk Western, record revenues were more than offset by increased operating expenses.

Net income for the subsidiaries reflects the allocation of income tax expense in 1979. Effectively, this results in Duluth, Winnipeg and Pacific and Central Vermont bearing their normal income tax burden and the tax relief from consolidation with Grand Trunk Western being credited to the GTW. Income taxes were not allocated in the same manner in 1978.

Grand Trunk Western

In 1979 GTW had a net income of US $9.0 million. However, this included the tax credit referred to above and a tax benefit of a loss carryforward which were not included in 1978 results. If these factors were eliminated there would have been a decrease of US $3.6 million from the previous year resulting from a combination of a decline in operating income and higher interest charges. Revenues were higher than the previous year but expenses increased at a more rapid rate and this had the effect of increasing the operating ratio from 97.9 to 98.8. The operating income decline was mainly attributed to weather-related problems early in the year, increased fuel prices and sharply higher equipment rental expenses.

The increase in interest expense was due to additional borrowing for new equipment.

Duluth, Winnipeg and Pacific

Net income of the DW&P amounted to US $6.0 million or US $10.6 million if income tax is deleted from the 1979 figures to provide comparability with 1978. On the latter basis there would have been an increase of US $2.6 million over 1978.

Revenues reached a record US $35.6 million, an increase of US $4.9 million over 1978. Higher traffic volume (potash, paper, woodpulp) and rate increases accounted for the improvement.

Expenses were only slightly higher than in 1978 despite increased wage, material and fuel costs. Reductions in engineering expenses and higher

per diem credits helped produce the very satisfactory operating ratio of 64.9.

Central Vermont

Central Vermont had a net income of US $1.2 million. However, the improvement over 1978 is obscured by the 1979 income tax allocation. The 1979 results before income tax amounted to US $1.9 million, an improvement of US $0.6 million over 1978.

Higher revenues (18.7%) were mostly offset by a 16.3% rise in expenses. Additional traffic (pulp and paper, ores and minerals) accounted for approximately one-third of the rise in revenues with rate increases accounting for the balance.

The jump in expenses was caused by payroll and fringe benefit increases, an extensive rail upgrading program and substantially higher car repair billings chargeable to the CV on newsprint cars.

GRAND TRUNK CORPORATION
Highlights (Canadian Dollars)

	1979	1978	Increase (Decrease) Amount	Percent
Revenues	$312.6	$268.2	$ 44.4	16.6
Expenses	288.4	246.2	42.2	17.1
Operating income	24.2	22.0	2.2	10.0
Other income	9.0	10.6	(1.6)	(15.1)
Interest expense	3.6	1.2	2.4	—
Income before income taxes	29.6	31.4	(1.8)	(5.7)
Income taxes	2.8	1.1	1.7	—
Income	$ 26.8	$ 30.3	$ (3.5)	(11.6)
Operating ratio	92.3	91.8	0.5	0.5
Return on average investment %	8.8	10.8	(2.0)	(18.5)
Revenue ton miles (billions)	5.7	5.5	0.2	3.6
Capital expenditures	$ 62.7	$ 39.9	$ 22.8	57.1
Employees — average number	5,084	5,218	(134)	(2.6)

CNT employee M. Telep, working on NorthwesTel microwave tower near Whitehorse, Yukon.

CN TELE-COMMUNICATIONS

CN's Telecommunications Division was able to increase total revenues by 12.3% over the previous year while holding operating expenses to an increase of 10.0%. This produced a 22.5% increase in operating income and a profit of $25.5 million — $6.5 million more than in 1978.

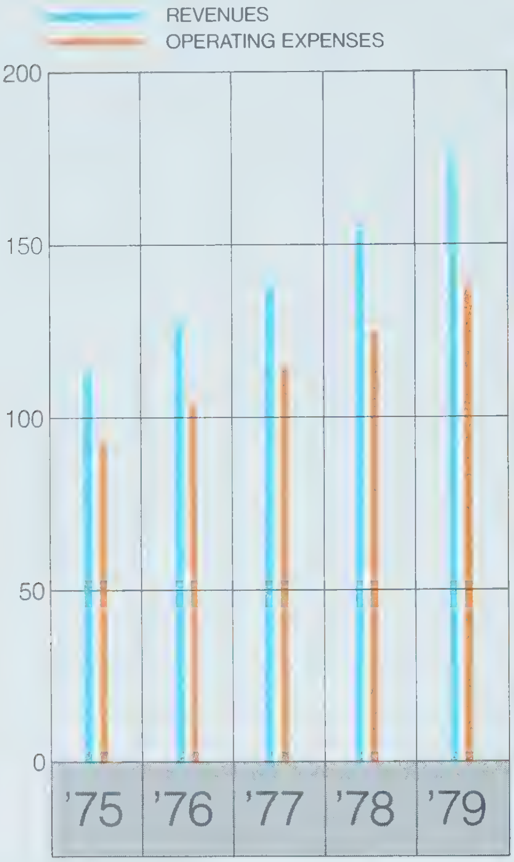
Higher revenues stemmed mainly from success in meeting the demands of an expanding market for advanced business communications. Productivity improvement flowing from the use of new technology was also important in bringing about the good financial result.

The Division's three profit centres underwent further stages of organization development during 1979. The Newfoundland Telecommunications unit and the Northwest Telecommunications unit were formally incorporated as wholly-owned Canadian National subsidiaries. In a further step towards rationalization of its long-standing working association with Canadian Pacific Telecommunications, the General Telecommunications Services Unit came under an Integrated Management Group in September 1979.

CN TELECOMMUNICATIONS
Highlights

	1979	1978	Increase (Decrease) Amount	Percent
Revenues	$174.1	$155.0	$ 19.1	12.3
Expenses	138.7	126.1	12.6	10.0
Operating income	35.4	28.9	6.5	22.5
Other income	2.3	1.5	0.8	53.3
Interest expense	12.2	11.4	0.8	7.0
Income	$ 25.5	$ 19.0	$ 6.5	34.2
Operating ratio	79.7	81.4	(1.7)	(2.1)
Return on average investment %	10.6	9.0	1.6	17.8
Capital expenditures	$ 44.4	$ 41.3	$ 3.1	7.5
Employees — average number	3,697	3,715	(18)	(0.5)

REVENUES AND OPERATING EXPENSES 1975-1979
Millions of dollars



OPERATING INCOME 1975-1979
Millions of dollars

General Telecommunications Unit

In association with Canadian Pacific Telecommunications and in competition with the Trans-Canada Telephone System this unit markets a wide array of telecommunications services to business, industry and the public, ranging from telegrams to high-speed data services.

A dual gain has been realized from continuing modernization of facilities, employing solid state technology. Improved productivity has tempered the effect of inflation, while the marketability of services has been enhanced by greater reliability.

Growth in income resulted from expansion of Telex and Private Wire business combined with rate adjustments which took effect in April 1979.

	1979	1978
Income	$ 14.9	$ 13.1
Operating ratio	81.3	81.2
Employees — average number	2,629	2,644

Northwest Telecommunications Inc.

This new CN subsidiary ("Northwes-Tel") was established in 1979 with headquarters at Whitehorse. It provides public telephone service and a full range of modern telecommunications services in northern British Columbia, the Yukon, and the western portion of the Northwest Territories.

A 21% increase in the number of long distance calls completed in 1979 contributed in large part to a 15% increase in telephone revenues.

	1979	1978
Income	$ 7.1	$ 5.7
Operating ratio	76.3	77.0
Employees — average number	559	537

Terra Nova Telecommunications Inc.

"Terra Nova Tel", incorporated in 1979, provides public telephone service in most areas of insular Newfoundland and a complete range of other telecommunications services throughout the province. A new headquarters building for this subsidiary is under construction at Gander, for occupation in the summer of 1980.

Business growth stemmed from an improving Newfoundland economy in 1979, expanded by increased fishing and offshore gas and oil exploration. Telephone revenues were up 23% over 1978, reflecting a 14% increase in volume of calls and a rate increase which was granted in the fall of 1978.

	1979	1978
Income	$ 3.5	$ 0.2
Operating ratio	76.8	88.8
Employees — average number	509	534

Stephen Baransky of Calgary is at the wheel of a Midland Superior rig bound for Vancouver along the Trans-Canada Highway.

CN TRUCKING

The 10 active companies which make up CN's trucking arm earned $3.2 million before income taxes in 1979 and returned a profit of $2.9 million to the Corporation. This represents a good performance in view of slowness in the economy and strong competition within the trucking industry and from other modes of transport.

The profit (income) recorded above represents a return on investment of

8.7%. This is an improvement of 1.2% over 1978. The operating ratio of 96.3 represents an improvement of 0.4%.

Main contributor to the financial improvement was Husband Transport Limited which earned income of $1.3 million compared with $0.8 million the previous year. Most of the other companies had smaller gains or remained the same as in 1978. Two (Swan River-The Pas Transfer Ltd. and Eastern Transport Limited) showed decreases.

Capital expenditures for 1979 amounted to $6.5 million of which $5.4 million went for new vehicles and $1.1 million to complete a new main terminal and office building in Toronto. The capital expenditures reflect anticipation of further increases in volume of business and revenues in 1980.

CN TRUCKING
Highlights

	1979	1978	Increase (Decrease) Amount	Increase (Decrease) Percent
Revenue	$ 75.9	$ 70.3	$ 5.6	8.0
Expenses	73.1	68.0	5.1	7.5
Operating income	2.8	2.3	0.5	21.7
Other income	1.2	0.9	0.3	33.3
Interest expense	0.8	0.7	0.1	14.3
Income before income taxes	3.2	2.5	0.7	28.0
Income taxes	0.3	0.2	0.1	—
Income	$ 2.9	$ 2.3	$ 0.6	26.1
Operating ratio	96.3	96.7	(0.4)	(0.4)
Return on average investment %	8.7	7.5	1.2	16.0
Capital expenditures	$ 6.5	$ 6.9	$ (0.4)	(5.8)
Employees — average number	1,631	1,679	(48)	(2.9)

CN EXPRESS

The Express Division lost $47.2 million in 1979 compared with $33.1 million the previous year.

Revenues increased by 8.9% over 1978 as a result of increased traffic and rate adjustments. The increased expenses (15.4%) resulted from the increased workload, inflation and increased expenditures for the development and implementation of the computer system TRACE.

Efforts are being made to improve the financial results through a more profitable mix of traffic handled. Productivity improvements resulting from this effort, together with the effective use of the TRACE system, are expected to improve the performance of the division in 1980.

CN EXPRESS
Highlights

	1979	1978	Increase (Decrease) Amount	Increase (Decrease) Percent
Revenues	$139.3	$127.9	$ 11.4	8.9
Expenses	184.3	159.7	24.6	15.4
Operating income (loss)	(45.0)	(31.8)	13.2	41.5
Other income	(0.3)	0.2	(0.5)	—
Interest expense	1.9	1.5	0.4	26.7
Income (loss)	$ (47.2)	$ (33.1)	$ 14.1	42.6
Operating ratio	132.3	124.9	7.4	5.9
Shipments handled (thousands)	8,896	8,528	368	4.3
Pieces handled (thousands)	25,505	23,657	1,848	7.8
Capital expenditures	$ 6.2	$ 6.8	$ (0.6)	(8.8)
Employees — average number	5,382	5,254	128	2.4

Loading Express traffic at Bonaventure Terminal, Montreal.

CN HOTELS
Highlights

	1979	1978	Increase (Decrease) Amount	Percent
CN-Operated				
Revenues	$ 48.6	$ 46.0	$ 2.6	5.7
Expenses	44.9	42.8	2.1	4.9
	3.7	3.2	0.5	15.6
Divisional expenses	2.0	1.3	0.7	—
Income	1.7	1.9	(0.2)	(10.5)
Hilton-Operated				
Income (loss)	0.3	(0.2)	0.5	—
Total Income	2.0	1.7	0.3	17.6
Loss on hotel disposal	0.3	—	0.3	—
Interest expense	3.2	2.7	0.5	18.5
Net income (loss)	$ (1.5)	$ (1.0)	$ 0.5	—
Operating ratio — CN-Operated	96.5	95.9	0.6	0.6
Return on average investment %	2.1	2.2	(0.1)	(4.5)
Capital expenditures	$ 6.8	$ 4.9	$ 1.9	38.8
Employees — average number	1,114	1,154	(40)	(3.5)

CN HOTELS

New wing of Hotel Beauséjour, Moncton. The newest of CN Hotels, the Beauséjour contributes to economy and social life in Moncton.

CN's Hotel Division shared in the moderate business improvement experienced by the Canadian hotel industry generally in 1979 and showed a before-interest profit of $2.0 million compared with $1.7 million in 1978. However, when a loss of $0.3 million on the sale of Hotel Fort Garry in Winnipeg and interest expenses of $3.2 million are taken into account, the final result was a loss of $1.5 million, compared with a $1.0 million loss the previous year.

Managerial changes which have included the appointment of a president of CN Hotels were followed up in 1979 by development of a hotel strategy designed to improve the efficiency and profitability of the division. A strategic plan proposed by the new management team was accepted by the Board of Directors in November 1979. It was also decided in 1979 to merge the Hotel Division and the CN Tower in Toronto.

Revenues from CN-operated hotels totalled $48.6 million, an increase of 5.7% over the previous year. This improvement resulted from increase in occupancies, higher room rates and improved returns from food and beverage operations.

Expenses of CN-operated hotels were up only 4.9%, reflecting successful control of costs in the face of inflation.

Hilton-operated hotels showed a profit of $0.3 million compared with a loss of $0.2 million in 1978.

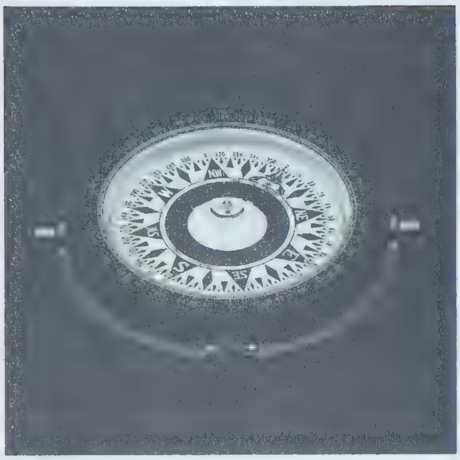
The accompanying chart shows the distribution of income from CN-operated hotels and restaurants and the comparative room occupancy.

CN HOTELS	Income			Room Occupancy	
	1979	1978	Increase (Decrease)	1979	1978
				%	%
Hotel Newfoundland	$ 0.5	$ 0.4	$ 0.1	84.2	81.7
Hotel Nova Scotian	0.2	0.1	0.1	63.2	57.3
Hotel Beauséjour	0.1	0.1	—	68.0*	73.7
Château Laurier	1.3	1.4	(0.1)	74.9	75.3
Hotel Fort Garry	(0.2)	(0.4)	0.2	63.2	55.6
Hotel Macdonald	0.2	0.4	(0.2)	64.8	68.8
Jasper Park Lodge	1.4	1.2	0.2	87.6	85.8
Tower Restaurants	0.2	—	0.2	—	—
	3.7	3.2	0.5		
Divisional expenses	2.0	1.3	0.7		
Total income	$ 1.7	$ 1.9	$ (0.2)		

*The 1979 percent reflects the influence of the additional 106 rooms which were opened in October 1979.

Captain Stephen Lanteigne of the Abegweit *looks over plans for a new ship for the Northumberland Strait service linking Prince Edward Island with the mainland. Replacement of the* Abegweit *will represent the biggest single capital project undertaken by CN Marine.*

CN MARINE



CN MARINE
Highlights

	1979	1978	Increase (Decrease) Amount	Percent
CN Marine Inc.	$ 7.8	$ —	$ 7.8	—
Coastal Transport Limited	0.1	—	0.1	—
Newfoundland Dockyard	0.6	(0.4)	1.0	—
Miscellaneous	0.3	0.2	0.1	—
Income before income tax	$ 8.8	$ (0.2)	$ 9.0	—
Capital expenditures	$107.3	$ —	$107.3	—
Employees — average number	3,622	3,668	(46)	(1.3)

Operating within the context of new relationships with the parent company and the Federal Government, CN's Marine Division had a successful year. Traffic and revenues from East Coast ferry and coastal services and from the Newfoundland Dockyard increased while expenses were held to reasonable levels. The end result was a profit before income tax of $8.8 million compared to a deficit of $0.2 million in 1978.

CN MARINE INC.

New arrangements for 1979 included the operation by CN Marine Inc. of the East Coast ferry and coastal services on behalf of the Federal Government on a contract basis. Under these arrangements CN Marine Inc. generates income through commercial (user) revenue and government contractual revenue, sufficient to cover operating and other expenses as well as to provide an agreed-upon return on equity. Significant productivity improvements were made in 1979 resulting in return on equity of 7.5% before income tax and 3.8% after income tax.

During the year, CN Marine Inc. also entered into contracts with the Ministry of Transport and Canadian National Railways to provide for the management and operation of the through movement of rail traffic between and within the ports of North Sydney-Port-aux-Basques and Borden-Tormentine.

Under all these arrangements the financial results shown by CN Marine Inc. were:

	1979	1978
Revenues	$154.0	$117.9
Expenses	147.1	117.4
Operating income	6.9	0.5
Interest income	1.5	—
Interest expense	0.6	0.5
Income before income tax	7.8	—
Income tax	3.8	—
Income	$ 4.0	$ —

Included in the 1979 revenues of $154.0 million were $25.6 million from commercial (user) sources, $100.6 million from government contracts, $22.7 million from Canadian National Railways' contracts, and $5.1 million from other sources.

The number of passengers carried on CN Marine Inc. ferries was 2,315,000 and the number of commercial vehicles handled was 245,000; increases of 3.3% and 5.8% respectively.

Passenger-related vehicles (682,000) and rail cars (42,730) declined by 0.6% and 7.7% respectively.

Coastal Transport Limited provides ferry services between Black's Harbour and Grand Manan Island on a management fee basis for the Province of New Brunswick.

Financial results of Coastal Transport Limited in 1979 were:

	1979	1978
Revenues	$ 2.3	$ 1.4
Expenses	2.2	1.4
Income	$ 0.1	$ —

The revenues include the user revenues and subsidy by the Province of New Brunswick as well as a subsidy payment from the Federal Government. The 1978 figures cover the period (July 13-December 31) when Coastal Transport Limited was owned by CN Marine Inc.

During 1979, 71,000 passengers, 24,000 passenger-related vehicles and 3,600 commercial vehicles were carried.

The Newfoundland Dockyard at St. John's earned a profit of $0.6 million in 1979 compared with a loss of $0.4 the previous year. The improved result came from more repair work on both CN-operated and other vessels and reflects an intensive marketing effort.


ABEGWEIT

One of TerraTransport's Roadcruisers at Flatrock, Newfoundland.

TERRATRANSPORT

TerraTransport was formed as a separate division of CN in 1979 to operate the Corporation's rail, intermodal, package and bus services in Newfoundland. In addition, TerraTransport assumed responsibility for the through movement of rail traffic from North Sydney to Port-aux-Basques and entered into an agreement with CN Marine Inc. and the Federal Government in regard to this Gulf crossing service.

As indicated in the "Highlights" below, TerraTransport incurred a loss of $24.8 million in 1979, a reduction of $1.2 million from the 1978 loss of $26.0 million. Revenues and expenses in 1979 included the contract revenues relating to the Gulf crossing service.

TERRATRANSPORT
Highlights

			Increase (Decrease)	
	1979	1978	Amount	Percent
Revenues	$ 41.4	$ 18.1	$ 23.3	—
Expenses	64.7	42.5	22.2	—
Operating income (loss)	(23.3)	(24.4)	(1.1)	(4.5)
Interest expense	1.5	1.6	(0.1)	(6.3)
Income (loss)	$ (24.8)	$ (26.0)	$ (1.2)	(4.6)
Revenue ton miles (millions)	188.0	180.0	8.0	4.4
Capital expenditures	$ 5.1	$ 2.7	$ 2.4	—
Employees — average number	1,318	1,342	(24)	(1.8)

MISCELLANEOUS

Miscellaneous elements of the Corporation produced the result shown in the following comparative table:

	1979	1978
Other Sectors	$ 20.9	$ 25.6
CN Corporate	(39.7)	(49.3)
Other Income	11.2	(0.6)
Income (loss)	$ (7.6)	$ (24.3)

Other Sectors

The composition of Other Sectors and distribution of income compared with the previous year is shown below:

	1979	1978
CN Rail		
Autoport Limited	$ 0.4	$ 0.1
The Canada and Gulf Terminal Railway Company	(0.1)	—
Compagnie de Gestion de Matane Inc.	(0.1)	(0.2)
Halterm Limited	1.0	0.5
Northern Alberta Railways Company	0.8	1.8
The Public Markets, Limited	0.1	—
	2.1	2.2
CN Tower Limited	(0.1)	(0.7)
Canac Consultants Limited	0.6	0.3
Canalog Logistics Limited	—	(0.1)
Canat Limited	0.4	—
Real Estate Department (including Canadian National Realties, Limited)	18.6	24.8
Others	(0.7)	(0.9)
	$ 20.9	$ 25.6

Real Estate was the largest contributor ($18.6 million) to corporate revenues among Other Sectors. Total income of Real Estate declined because less profit was realized on land sales compared with 1978. During 1979 studies began on a reorganization of the real estate function. The studies aim at improving the capability to deal with real estate opportunities offering on lands owned by the Corporation, including its various divisions.

Consulting Activities. CANAC Consultants Limited produced income of $0.6 million compared with $0.3 million in 1978. Demands for CANAC's services increased during the year. There was increased activity in the procurement of Canadian-built rolling stock and track materials for railways outside Canada. CANAC signed long-term contracts and commenced work on a Management Study and a Line Capacity Study for the Régie des Chemins de Fer Abidjan-Niger, Ivory Coast, a locomotive and car repair training program for the Tanzania Railway Corporation and a rail line design project in Brazil.

At year end contract proposals were being developed in Latin America and management contract extensions were being negotiated for Zambia Railways and Chemin de Fer de Boké, Kamsar, Guinea.

Development work continued in the Near and Far East and a major proposal was presented to the Bangladesh Railways for the construction of locomotive shops and facilities for which CANAC is represented in Bangladesh by Aziz and Company, Dacca. At year end no remuneration was paid to this representative. During the early part of 1979 CANAC was represented in Saudi Arabia by Rasim Sha'ath and in Jordan and Syria by Redec (Canada) Research and Development. These arrangements ended during the year and no remuneration was payable or paid to these representatives.

In 1979, Venezuela reviewed the nation's priorities and no work was initiated on the East Railways Project involving Canaven Limited. No remuneration became due to Industrias Europeas C.A., Canaven's commercial representative.

CN Corporate

The improvement in CN Corporate results ($9.6 million) came mainly from payment by the Federal Government of passenger and branch line subsidies due from prior years, partially offset by higher headquarters expenses.

Other Income

The improvement ($11.8 million) in Other Income came mainly from higher interest income and from a dividend received from Eurocanadian Shipholdings Limited.

Master Mechanic Marcel Bouchard works for CN's consulting arm (CANAC). Here he discusses problems of operating diesel locomotives over the steep grades encountered in the Republic of Guinea.

The latest in warehousing methods are employed at CN's new stores facility at Transcona, Man. The facility serves Transcona Shops and CN's Prairie Region.

PEOPLE AND ORGANIZATION

The ability of CN's people to combine efficient operation of the various activities of the Corporation with the implementation of organizational change was a major factor in producing the good results of the past year.

Headquarters departments continued to adapt their planning and support services to the divisional form of organization and changes in relationships between headquarters and the divisions, and among the divisions, continued to be made smoothly. This process was aided by the use of up-to-date computer and communications technology on a cost-effective basis. The computer capability of the Corporation was augmented in a number of areas including the provision of facilities allowing shippers to use either conventional or metric measure to state shipment quantities.

In the area of labour relations, three-year agreements covering 55,000 employees were signed in 1979 with the Associated Non-Operating Unions, the United Transportation Union, the Brotherhood of Locomotive Engineers and the Shop Craft Unions.

These agreements, which will expire on December 31, 1981, call for general wage increases of 10%, 8% and 8% respectively and for further annual wage adjustments in the event that inflation exceeds certain predetermined levels. In addition, these agreements call for substantial improvements in the areas of health and welfare protection and leisure time with pay.

As a result of these national agreements a comprehensive, company-paid dental care plan was implemented effective December 15, 1979 for the benefit of employees and their dependents.

Use of both official languages was expanded at all levels of the Corporation during 1979. The number of francophone employees increased at headquarters in Montreal, in the Province of Quebec and in senior management ranks across Canada. Of the university graduates hired by CN in 1979 about 31% were francophones. In the Province of Quebec, French is the working language of CN's regional operations.

Driver William Staples welcomes passenger Donna Anstey aboard a TerraTransport Roadcruiser. The buses cross the Island Province of Newfoundland on the Trans-Canada Highway.

In accordance with company policy, service to the public is provided in both official languages wherever there is significant demand across Canada. Toll-free long distance telephone service is provided in areas where service in both official languages may occasionally be required but where the demand is not great enough to justify on-site bilingual capability.

CN's Employee Suggestion Plan produced 163 suggestions and total cash awards of $75,000 in 1979. Four maximum awards of $10,000 each were paid in the second half of the year.

The quality of the suggestions remains high as indicated by the fact that the percentage of suggestions adopted, as compared to those processed, is 28%, or better than one in four.

Medical services provided during the year included more than 100,000 examinations provided to employees in medical services clinics located across Canada. These included preplacement and periodic medical examinations, treatment of on-job injuries and illnesses, medical aspects of compensation cases, clearance for return to work, medical participation in alcohol and drug programs (as part of the employee assistance program), laboratory analyses, etc.

Training in First Aid continued to be available to employees during the year and a course in Cardio-Pulmonary Resuscitation was introduced. First Aid competitions were carried out on the regions and at headquarters. Action was taken to make sure that First Aid and resuscitation equipment is available in work areas and is maintained in good order.

Pensioners and beneficiaries to the total number of 44,211 received $161.7 million in 1979, compared with 43,923 pensioners and beneficiaries receiving $148.9 million in 1978.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

		December 31			
			1979		1978
			(in thousands)		
Assets					
Current Assets	Cash		$ 65,160		$ 4,405
	Accounts receivable		393,325		373,784
	Material and supplies		274,421		236,391
	Other current assets		137,039		111,490
			869,945		726,070
Insurance Fund			24,165		18,191
Investments			181,613		68,443
Property Investment			3,971,245		3,628,287
Other Assets and Deferred Charges			96,163		90,157
			$5,143,131		**$4,531,148**
Liabilities					
Current Liabilities	Bank loans		$ 1,400		$ 2,400
	Accounts payable		383,502		307,456
	Accrued charges		168,230		145,280
	Other current liabilities		140,348		113,572
			693,480		568,708
Provision for Insurance			24,165		18,191
Other Liabilities and Deferred Credits			151,871		124,499
Long-Term Debt			1,505,237		1,322,265
Minority Interest in Subsidiary Companies			4,345		4,345
Shareholder's Equity	Capital stock of Canadian National Railway Company; 6,208,722 (1978 — 6,000,000) common shares of no par value authorized, issued and outstanding	$2,448,835		$2,344,474	
	Retained earnings	315,198	2,764,033	148,666	2,493,140
			$5,143,131		**$4,531,148**

On behalf of the board:
J. A. Dextraze, Director
R. A. Bandeen, Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

		Year ended December 31 1979		1978	
		(in thousands)			
Revenues			$3,294,335		$2,900,167
Expenses			3,011,367		2,686,492
Operating income			282,968		213,675
Other income			24,845		19,007
Interest expense — net			(96,359)		(95,154)
Income before income taxes and extraordinary item	CN Rail	$234,604		$224,407	
	CN Passenger	(9,148)		(55,183)	
	Grand Trunk Corporation	29,631		31,420	
	CN Telecommunications	25,475		19,044	
	CN Trucking	3,180		2,532	
	CN Express	(47,192)		(33,074)	
	CN Hotels	(1,505)		(1,018)	
	CN Marine	8,829		(175)	
	TerraTransport	(24,833)		(26,000)	
	Miscellaneous	(7,587)	211,454	(24,425)	137,528
Income taxes			98,250		55,395
Income before extraordinary item			113,204		82,133
Reduction in income taxes on application of prior years' losses			94,961		53,972
Net income			**$ 208,165**		**$ 136,105**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

	Year ended December 31 1979	1978
	(in thousands)	
Balance, beginning of year	$148,666	$ 39,782
Net income for the year	208,165	136,105
	356,831	175,887
Dividend	41,633	27,221
Balance, end of year	**$315,198**	**$148,666**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

		Year ended December 31 1979	1978
		(in thousands)	
	Working Capital, beginning of year	**$157,362**	**$101,439**
Funds Provided	Net income for the year	208,165	136,105
	Add (deduct) items not involving the current provision or use of funds		
	—depreciation	187,774	166,240
	—equity in net income of companies accounted for by equity method, less dividends received	(1,744)	(2,128)
	—amortization of discount on long-term debt	778	793
	—other	12,696	12,711
	Funds from operations	407,669	313,721
	Issuance of capital stock	104,361	—
	Issuance of long-term debt	206,525	151,372
	Net proceeds from disposal of assets	27,553	78,772
	Repayments of advances by jointly-operated companies	2,510	—
	Payment on balance of sale of assets	8,670	15,174
	Cancellation of Air Canada shares and debt	—	349,477
	Sale of VIA Rail Canada Inc. shares	—	100
	Total Funds Provided	**757,288**	**908,616**
Funds Used	Additions to property investment	558,285	374,957
	Dividend	41,633	27,221
	Investments	113,936	339
	Discount on issuance of debentures	437	—
	Reduction of long-term debt		
	—cancellation of debt equivalent to Air Canada shares and debt	—	349,477
	—other	23,894	48,676
	Balance of sale of assets	—	52,023
	Total Funds Used	**738,185**	**852,693**
Increase in Working Capital		19,103	55,923
	Working Capital, end of year	**$176,465**	**$157,362**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Introduction
All references in these Notes to the "Company" include the Canadian National Railway Company and its consolidated subsidiaries, and all references to the "System" mean Canadian National Railway Company and its consolidated subsidiaries together with the lines of railway, telecommunications and other property entrusted by the Government of Canada to the Company for management and operation.

a. Principles of Consolidation
The consolidated financial statements include the accounts of all subsidiaries and, consistent with the legislation governing the System, the accounts of the Canadian Government Railways entrusted to the Company by the Government of Canada.

Investments in jointly-operated companies in which the Company has less than a majority interest are accounted for by the equity method where appropriate.

b. Material and Supplies
The inventory has been priced at laid down cost based on weighted average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

c. Insurance Fund
The System is self-insured for various risks, maintaining a separately invested fund. The provision for insurance represents the estimated amount of self-insured losses to be adjusted.

d. Property
Property is carried at cost, which, in the case of properties brought into the System at January 1, 1923, is the aggregate of the values then appearing in the books of the railways now comprised in the System, less a write-down of $262.8 million at the time of capital revision in 1937.

Accounting for railway and telecommunications property is carried out in accordance with rules issued by the Canadian Transport Commission and the Canadian Radio-television and Telecommunications Commission respectively (Canadian property), and the Interstate Commerce Commission (United States property), except, in the case of United States property, for the application of depreciation accounting to ties, rails, other track material and ballast. Major additions and replacements generally are capitalized with the exception of labour costs relating to track material replacement which are charged to expense.

The cost of depreciable assets retired or disposed of, less salvage, is charged to accumulated depreciation, in accordance with the group plan of depreciation.

e. Depreciation
Depreciation is calculated at rates sufficient to write off properties over their estimated useful lives, generally on a straight-line basis in accordance with the group method. For railway and telecommunications properties, certain rates are authorized by the Canadian Transport Commission, the Canadian Radio-television and Telecommunications Commission and the Interstate Commerce Commission. The rates for significant classes of assets are as follows:

	Annual Rate
Ties	3.25%
Rails	1.15%
Other track material	1.90%
Ballast	4.00%
Road locomotives	4.60%
Freight cars	2.97%
Commercial communication systems	4.29%

f. Pensions
Current service costs are charged to operations, and funded, as they accrue.

Prior service costs are charged to operations over varying periods to 2027, as set out in Note 8, and are being funded by annual payments covering principal and interest over varying periods to 2006 (2014 in the case of U.S. Plans) as permitted by regulatory authorities.

g. Foreign Exchange
Assets and liabilities in foreign currencies have been translated into Canadian dollars at current rates except for investments, property investment and long-term debt for which historical rates have been used. Income is charged or credited with all exchange differences. Income and expenses of foreign subsidiaries have been translated at average rates during the year except for depreciation provisions which are on the same basis as the related property investment.

NOTE 2: Investments

		Percentage of Ownership	December 31 1979	1978
			(in thousands)	
Jointly-operated companies, on equity method where appropriate, or at cost less provision for any impairment in value	Chicago & Western Indiana Railroad Company	20%	$ 7,156	$ 7,104
	The Detroit & Toledo Shore Line Railroad Company	50%	6,093	5,933
	Northern Alberta Railways Company	50%	26,503	27,721
	The Toronto Terminals Railway Company	50%	9,182	9,182
	Other		6,906	6,503
			55,840	56,443
Other companies, at cost	Eurocanadian Shipholdings Limited	18%	11,900	11,900
	Intercast S.A.	18%	100	100
	Furness, Withy & Company, Limited	3.3%	5,773	—
			17,773	12,000
Term deposits, maturing February 2, 1981			108,000	—
			$181,613	**$ 68,443**

NOTE 3: Property Investment

	December 31, 1979			December 31, 1978		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
	(in thousands)					
Railway						
Canadian Lines (1)	$5,453,260	$2,318,380	$3,134,880	$5,089,223	$2,229,615	$2,859,608
Grand Trunk Corporation	432,485	127,531	304,954	378,565	121,099	257,466
	5,885,745	2,445,911	3,439,834	5,467,788	2,350,714	3,117,074
CN Telecommunications	525,632	173,729	351,903	494,295	164,065	330,230
CN Trucking	54,985	26,312	28,673	51,663	23,951	27,712
CN Hotels	122,102	55,112	66,990	122,666	55,322	67,344
Other	96,312	12,467	83,845	95,970	10,043	85,927
	799,031	267,620	531,411	764,594	253,381	511,213
	$6,684,776	**$2,713,531**	**$3,971,245**	**$6,232,382**	**$2,604,095**	**$3,628,287**
Amounts included above with respect to Canadian Government Railways entrusted to the Company by the Government of Canada and estimated accumulated depreciation	$ 860,470	$ 443,879	$ 416,591	$ 820,316	$ 423,165	$ 397,151

(1) Includes CN Rail, CN Passenger, CN Express, CN Marine, TerraTransport and Miscellaneous properties.

NOTE 4: Long-Term Debt

	Maturity	Currency in which payable (in thousands)	December 31 1979 (in thousands)	1978
Bonds and Debentures				
Canadian National 4% 23 Year Bonds (a)	Feb. 1, 1981	Canadian	$ 300,000	$ 300,000
Canadian National 5¾% 25 Year Bonds (a, b)	Jan. 1, 1985	Canadian	72,442	74,467
Canadian National 8⅜% 10 Year Bonds	Nov. 15, 1986	U.S. $85,000	83,232	83,232
Canadian National 8⅞% 10 Year Bonds (b)	Mar. 1, 1987	Canadian	52,800	54,600
Canadian National 5% 27 Year Bonds (a, b)	Oct. 1, 1987	Canadian	114,282	117,782
Canadian National 9¼% 20 Year Sinking Fund Debentures (b)	Mar. 15, 1998	U.S. $120,000	133,533	133,533
Canadian National 8⅜% 25 Year Sinking Fund Debentures (b)	July 1, 2002	U.S. $100,000	105,935	105,935
Canadian National 9.7% 25 Year Sinking Fund Debentures (b)	July 15, 2004	U.S. $150,000	174,940	—
Buffalo and Lake Huron 5½% 1st Mortgage Bonds	Perpetual	Sterling	795	795
Buffalo and Lake Huron 5½% 2nd Mortgage Bonds	Perpetual	Sterling	1,228	1,228
Total Bonds and Debentures			1,039,187	871,572
Government of Canada Loan and Advances (c)				
Government of Canada consolidated loan (d)		Canadian	247,631	252,875
Canadian Government Railways advances for working capital		Canadian	16,984	16,984
Amounts included in current liabilities			(5,712)	(5,244)
Total Government of Canada Loan and Advances			258,903	264,615
Other				
Amounts owing under equipment purchase agreements (e)		U.S. $211,064 (1978 — $192,046)	217,699	194,197
Promissory Note 9⅝% (f)			2,592	2,681
Amounts included in current liabilities			(10,527)	(7,842)
Total Other			209,764	189,036
			1,507,854	1,325,223
Less: Unamortized discount on long-term debt			2,617	2,958
			$1,505,237	**$1,322,265**

a.
Guaranteed by the Government of Canada.

b.
It is a condition of the 5¾ % bonds due in 1985 and the 5% bonds due in 1987, that the Company will use its best efforts to purchase during each quarter of each calendar year to maturity when available in the open market at prices not greater than their respective original issue prices, at least ½ of 1% of the principal amount of the issue.

It is a condition of the 8⅞ % bonds due in 1987 that the Company will use its best efforts to purchase bonds during each of the years commencing March 1, 1980 to 1986, in the aggregate principal amounts of $1,200,000, in each case at a price not exceeding the offering price (99¼).

For the 9¼ % sinking fund debentures due in 1998, there is a mandatory sinking fund provision under which the Company will pay, before March 15, 1984, and each year thereafter to and including March 15, 1997, a sum in cash sufficient to retire on each such March 15 U.S. $8,000,000 principal amount of debentures at 100% of their principal amount.

For the 8⅜ % debentures due in 2002, there is a mandatory sinking fund provision under which the Company will pay before July 1, in each of the years 1983 to 2001 inclusive, an amount sufficient to redeem U.S. $5,000,000 principal amount of debentures at 100% of their principal amount or deliver to the sinking fund debentures otherwise acquired of an equivalent principal amount.

For the 9.7% debentures due in 2004, there is a mandatory sinking fund provision under which the Company will pay before July 15, in each of the years 1989 to 2003 inclusive, an amount sufficient to redeem U.S. $9,500,000 principal amount of debentures at 100% of their principal amount or deliver to the sinking fund debentures otherwise acquired of an equivalent principal amount.

c.
Weighted average interest rate on Government of Canada loan and advances outstanding at December 31, 1979 and 1978, was approximately 8.2% per annum.

d.
The Government of Canada consolidated loan bears interest at 8¾ % per annum and is payable in equal semi-annual payments of $13.63 million covering principal and interest to June 30, 1998.

e.
Secured by rolling stock and payable by semi-annual or quarterly instalments over varying periods to January 1994 at fixed interest rates ranging from 8% to 9¾ %.

f.
Repayable by semi-annual instalments of $218,503, covering principal and interest, to August 1, 1988.

g.
Principal amounts due in the years indicated on debt outstanding at December 31, 1979, are as follows:

Year ending December 31:	Principal amount maturing (in thousands)
1980	$ 22,716
1981	326,382
1982	34,589
1983	42,007
1984	51,636
1985 - 1989	513,309
1990 - 1994	247,347
1995 - 1999	198,154
2000 - 2004	68,946

h.
Interest on long-term debt during 1979 amounted to $111.0 million (1978 — $99.3 million).

NOTE 5: Shareholder's Equity

a. Capital Stock
During the year, 208,722 additional shares of the no par value common stock of the Canadian National Railway Company were issued to the Government of Canada in exchange for ferry, coastal and rail-related assets having an agreed value of $104,361,000. These assets, which had previously been used in the operations entrusted to the Company by the Government, are now employed in CN Marine's operations. Under the terms of an arrangement, the Government shall purchase further shares in the capital stock of Canadian National Railway Company having a value in aggregate of up to $143,100,000 as a contribution to the cost of CN Marine's capital projects.

b. Retained Earnings
Under its governing legislation, the Company is required to pay to the Receiver General for Canada a dividend equal to 20% of net income for the year or such greater percentage as the Governor in Council may direct. Accordingly, a dividend in the amount of $41.6 million, representing 20% of the net income for the year 1979, has been accrued and is included in Other current liabilities.

NOTE 6: Major Commitments

a. Leases

(i) The Company's lease commitments as at December 31, 1979, of which the significant portion is in respect of railway rolling stock, are as follows:

	Non-Cancellable Leases	
	Capital Leases	Other
	(in thousands)	
Year ending December 31:		
1980	$ 43,935	$ 39,204
1981	42,544	35,756
1982	42,255	34,277
1983	41,650	31,266
1984	41,612	25,773
1985 - 1989	182,806	115,926
1990 - 1994	28,681	15,310
1995 - 1999	7,529	3,408
thereafter	1,209	269
Total minimum lease payments	432,221	$301,189
Less amount representing imputed interest	160,679	
Present value of net minimum lease payments under capital leases	$271,542	

Many of the leases provide renewal options and an option to purchase the property at fair market value at the end of the lease term.

(ii) Rental expenses under all lease arrangements were:

	Year ended December 31	
	1979	**1978**
	(in thousands)	
Total expenses	$149,472	$127,541
Expenses under capital leases	$ 42,866	$ 41,269

Leases entered into in 1979 which are of a capital nature are insignificant.

(iii) Net reduction in income and increases in assets and liabilities in the consolidated financial statements, which would have arisen if leases satisfying the criteria of capital leases had been capitalized, are as follows:

	Year ended December 31	
	1979	**1978**
	(in thousands)	
Net reduction in income	$ 6,126	$ 8,170
Increase in Assets		
Property Investment		
Leased property under capital leases	$301,112	$306,966
Less accumulated amortization	86,423	72,356
	$214,689	$234,610
Increases in Liabilities		
Current Liabilities		
Present value of obligations under capital leases	$ 19,175	$ 15,660
Non-current Liabilities		
Present value of obligations under capital leases	$271,542	$284,183
Less current portion	19,175	15,660
	$252,367	$268,523

b. Other

The Company has a commitment as at December 31, 1979, to purchase from a major Canadian steel producer over a fifty-five month period $203 million worth of new rail.

NOTE 7: Subsidies

Revenues include the following subsidies:

	Year ended December 31	
	1979	**1978**
	(in thousands)	
Government of Canada		
a. Payments under the Railway Act paid under authority of that Act and the related Appropriation Act in respect of certain uneconomic operations, services and prescribed rates which railways are required by the Railway Act to maintain	$135,216	$238,045
b. Vessel subsidies	—	95,258
c. Maritime Freight Rates Act and Atlantic Region Freight Assistance Act subsidies	18,574	16,981
d. Other	3,100	—
	156,890	350,284
Province of Quebec		
Montreal suburban commuter service subsidy	—	2,400
	$156,890	**$352,684**

NOTE 8: Pensions

The Company has retirement benefit plans covering substantially all its employees under which they are entitled to benefits at retirement age, based on compensation and length of service. Annual pension costs were as follows:

Year ended December 31	
1979	**1978**
(in thousands)	
$ 200,749	$ 175,960

The total amount of past service costs remaining to be charged to operations at December 31, 1979, based on the latest actuarial valuation as at December 31, 1977, adjusted for subsequent changes, amounted to:

	At December 31	
	1979	**1978**
	(in thousands)	
Canadian plans	$1,160,994	$1,198,979
U.S. plans	18,411	14,134
	$1,179,405	**$1,213,113**

This amount is being charged to operations in annual amounts, including principal and interest, as follows:

	Annual Cost (in thousands)
1980 - 1982	$ 132,152*
1983 - 1992	126,652*
1993	31,889
1994 - 1996	26,739
1997 - 2008	22,629
2009 - 2014	22,941
2015 - 2027	22,040

**Includes average annual amounts where payments are based on a proportion of payroll costs.*

The charge to operations in 1979 exceeded the funding requirement by $13.1 million. The cumulative excess of charges to operations over funding requirements, amounting to $55.1 million, is included in Other Liabilities and Deferred Credits.

The actuarially-computed value of vested benefits at December 31, 1977, the date of the latest actuarial valuation, exceeded the total of the pension funds at that date by $613.3 million.

NOTE 9: Income Taxes

Undepreciated capital cost for income tax purposes exceeds the net book value of depreciable assets by about $1.0 billion which is available to reduce taxable income of future years. In 1978, assessments were received from Revenue Canada increasing income for tax purposes in respect of the years 1969 to 1976. Notices of objection have been filed objecting to the inclusion in income of $172 million and, in the opinion of Counsel, are likely to be successful. Accordingly, this amount has not been deducted from the aforementioned undepreciated capital cost.

The Company's effective tax rate in 1979 was 2.5% lower than the normal 49% due principally to inclusion in income of gains on sale of property of which only a portion is taxable.

NOTE 10: Reclassification of Comparative Figures

During 1979, changes were made to improve the classification of certain items and for comparative purposes the related figures for 1978 have been reclassified.

NOTE 11: Subsequent Event

In February 1980, the Company agreed to acquire, subject to certain conditions, 4,299,653 shares of the capital stock of Manchester Liners Limited, representing a 37.6% interest in that company, from Eurocanadian Shipholdings Limited.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

To The Honourable The Minister of Transport,
Ottawa, Canada

We have examined the consolidated balance sheet of the Canadian National Railway System as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements are properly drawn up so as to give a true and fair view of the state of affairs of the System as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Also, in our opinion, proper books of account have been kept and the transactions that have come to our notice have been within the powers of the System.

Coopers & Lybrand

Montreal, Canada,
February 25, 1980.

Chartered Accountants.

Companies included in the Consolidated Financial Statements of the Canadian National Railway System as at December 31, 1979

Consolidated Companies

Autoport Limited
Canac Consultants Limited
The Canada and Gulf Terminal Railway Company
Canadian National Express Company
Canadian National Hotels (Moncton) Ltd.
Canadian National Railway Company
The Canadian National Railways Securities Trust
Canadian National Realties, Limited
Canadian National Steamship Company, Limited
Canadian National Telegraph Company
Canadian National Transfer Company
Canadian National Transportation, Limited
The Canadian Northern Quebec Railway Company
Canat Limited
Canaven Limited
Central Vermont Railway, Inc.
Chalut Transport (1974) Inc.
Chapman Transport Limited
C.N. (France) S.A.
CN Marine Inc.
CN Tower Limited
CN Tower Restaurants Ltd.
Coastal Transport Limited
Cronin Transport Limited
Domestic Two Leasing Corporation
Domestic Three Leasing Corporation
Domestic Four Leasing Corporation
Duluth, Rainy Lake & Winnipeg Railway Company
Duluth, Winnipeg and Pacific Railroad Company
Duluth, Winnipeg and Pacific Railway Company
Eastern Transport Limited
Empire Freightways Limited
Grand Trunk Corporation
Grand Trunk Land Development Corporation
Grand Trunk-Milwaukee Car Ferry Company
Grand Trunk Radio Communications, Inc.
Grand Trunk Western Railroad Company
The Great North Western Telegraph Company of Canada
Hoar Transport Company Limited
Husband International Transport (Ontario) Limited
Husband Transport Limited
Husband Transport (Quebec) Limited
Midland Superior Express Limited
The Minnesota and Manitoba Railroad Company
The Minnesota and Ontario Bridge Company
Mount Royal Tunnel and Terminal Company, Limited
The Northern Consolidated Holding Company Limited
*Northwest Telecommunications Inc.
Provincial Tankers Limited
The Quebec and Lake St. John Railway Company
Royal Transportation Limited
Swan River-The Pas Transfer Ltd.
*Terra Nova Telecommunications Inc.
The Toronto-Peterborough Transport Company, Limited

Jointly-operated and Other Companies in which the System has Investments

The Belt Railway Company of Chicago
*Canaprev Inc.
Chicago & Western Indiana Railroad Company
Compagnie de Gestion de Matane Inc.
Computer Sciences Canada, Ltd.
The Detroit & Toledo Shore Line Railroad Company
Detroit Terminal Railroad Company
East Yard Development Ltd.
Eurocanadian Shipholdings Limited
*Furness, Withy & Company, Limited
Halifax Industries (Holdings) Limited
Halterm Limited
Intercast S.A.
Metro Centre Developments Limited
Northern Alberta Railways Company
The Public Markets, Limited
The Shawinigan Falls Terminal Railway Company
Société du port ferroviaire de Baie Comeau-Hauterive
Telesat Canada
The Toronto Terminals Railway Company

*Acquired in 1979

In addition, the property of the Canadian Government Railways is entrusted to the Canadian National Railway Company as part of the System.

PENSION TRUST FUNDS CONSOLIDATED STATEMENT

Pension Trust Funds — 1959 and 1935 Pension Plans — Consolidated Statement of Financial Position as at December 31

		1979	1978
		(in thousands)	
Investments	Bonds — quoted market value 1979 — $633,435; 1978 — $585,506	$ 733,297	$ 648,370
	Mortgages and loans — secured by real estate	350,487	363,461
	Real estate	74,369	63,312
	Oil and gas properties	53,500	—
	Equities — quoted market value 1979 — $724,338; 1978 — $528,057	561,744	463,684
	Short-term investments	273,521	247,470
		2,046,918	1,786,297
	Cash in banks	174	302
	Accounts receivable — Canadian National Railways	6,583	4,132
	Accrued interest and other assets	19,813	24,783
		2,073,488	1,815,514
Amount to be funded	Amount to be funded by the Company in accordance with the Pension Benefits Standards Act by periodic payments to December 31, 2006		
	Balance, beginning of year	1,239,267	1,072,018
	Add increases during year	45,464	187,299
	Deduct —principal payments	(45,752)	(20,050)
	—Unfunded liability applicable to VIA Rail Canada Inc. pension plans	(26,381)	—
	Balance, end of year	1,212,598	1,239,267
		$3,286,086	**$3,054,781**

See accompanying notes to Consolidated Statement of Financial Position

Auditors' Report

To The Honourable
The Minister of Transport,
Ottawa, Canada

We have examined the consolidated statement of financial position of the Pension Trust Funds — 1959 and 1935 Pension Plans of Canadian National Railways as at December 31, 1979. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The actuarial liability for pensions is the subject of a separate certificate of independent actuaries which accompanies the consolidated statement of financial position, the last actuarial valuation having been made as of December 31, 1977.

In our opinion, based on our examination and the actuarial certificate, this consolidated financial statement is properly drawn up so as to give a true and fair view of the state of affairs of the Pension Trust Funds as at December 31, 1979 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Also, in our opinion, proper books of account have been kept and the transactions that have come under our notice have been within the powers of the Trustee.

Samson, Bélair & Associés

Chartered Accountants.
Montreal, February 25, 1980.

Pension Trust Funds — 1959 and 1935 Pension Plans — Consolidated Statement of Financial Position as at December 31

			1979	1978
			(in thousands)	
Actuarial Liability for Pensions	**Balance, Beginning of Year**		$3,054,781	$2,687,488
	Additions During Year			
	Increases in liability for pensions resulting from			
	—Actuarial valuation as at December 31, 1977		—	171,807
	—Increases in pensions of existing pensioners		15,464	15,492
	—Pension Plan amendments		30,000	—
			45,464	187,299
	Contributions by employees on account of			
	—Current service		65,759	58,409
	—Prior years' service		7,274	5,665
			73,033	64,074
	Contributions by the Company including principal payments	$185,417		
	Principal payments applied to unfunded liability	45,752	139,665	135,637
	Net earnings on investments		201,508	128,114
			414,206	327,825
			3,514,451	3,202,612
	Deductions During Year			
	Pensions paid		155,403	140,377
	Refunds on termination of service		8,510	7,454
	Reduction in actuarial liability for pensions on transfer of employees to VIA Rail Canada Inc.		64,452	—
			228,365	147,831
	Balance, End of Year		**$3,286,086**	**$3,054,781**

On behalf of the board:
J. A. Dextraze, *Director*
R. A. Bandeen, *Director*

Actuarial Certificate

To the Trustee
Canadian National Railways
Pension Trust Funds

This is to certify that the liability for pensions shown in the consolidated statement of financial position of the Pension Trust Funds — 1959 and 1935 Pension Plans of Canadian National Railways as at December 31, 1979, amounting to $3,286,086,000, in my opinion represents adequate provision for the accumulated liabilities for pensions then approved and in force, pensions awaiting approval and pensions accrued to the above date in respect of employees then in service under the 1959 and 1935 Pension Plans.

Fellow of the Canadian Institute of Actuaries.

William M. Mercer Limited,
Montreal, February 22, 1980.

Notes to Pension Trust Funds Consolidated Statement of Financial Position

1. Summary of Significant Accounting Policies

Plans included in Statement
The Pension Trust Funds Consolidated Statement of Financial Position includes the actuarial liability for pensions with respect to the 1959 and 1935 Pension Plans of Canadian National Railways and the related investments and unfunded liability.

Consolidation of Subsidiary Companies
The Pension Trust Funds have invested in a number of wholly-owned subsidiary companies. The accounts of these subsidiary companies are consolidated with the accounts of the Pension Trust Funds.

Investment Valuation
a. Bonds are carried at their amortized cost, plus deferred amounts arising from exchanges made to improve yields which are written off over the remaining life of the bonds sold;

b. Mortgages and loans are carried at outstanding principal balances;

c. Real estate consists of land and buildings. Land is carried at cost less encumbrances and buildings at cost less encumbrances and accumulated depreciation;

d. Oil and gas properties, which are managed by Dome Petroleum, are carried at cost. No depletion of the properties is provided for as Dome has given a guarantee, effective until January 5, 1999, that it will, at the option of the Funds, purchase the properties for a consideration equal to their cost.

e. Equities and short-term investments are carried at cost.

The quoted market value of investments in bonds and equities is based on the closing market quotations as of December 31.

Determination of Funding Payment
The actuarial cost method used is the accrued benefit — unit credit cost method.

The principal assumptions underlying the actuarial computations adopted by the Plans' actuary have been developed from the actual experience of the Plans in regard to the members' mortality, disability, retirement, termination of employment and merit and periodic increases in earnings.

The funding payments, including liquidation of the unfunded liability, meet the requirements of the Pension Benefits Standards Act and regulations thereunder. Consistent with the regulations, the Company is funding its unfunded liabilities, by annual payments, over varying periods to 2006.

Accounting for Contributions
Contributions from employees are recorded in the period that the Company makes payroll deductions.

The recording of contributions by the Company is based upon amounts required to be funded with respect to accrued liabilities and the Company's current service liability.

Income Determination
Dividend income is recorded as of the ex-dividend date. Income from other investments is recorded as earned on an accrual basis.

Gain or loss on sales of equities is based on the average cost.

Foreign Exchange
Investments in United States funds are translated into Canadian funds at the historical rate prevailing when such investments were made, which, on average, approximates par. The quoted market values of these investments are translated into Canadian funds at the rate prevailing at year-end.

2. Commitments

Outstanding commitments to purchase mortgages and real estate investments amounted to $17,294,506 at December 31, 1979.

3. Reclassification of Comparative Figures

During 1979 changes were made to improve the classification of certain items and for comparative purposes the related figures for 1978 have been reclassified.

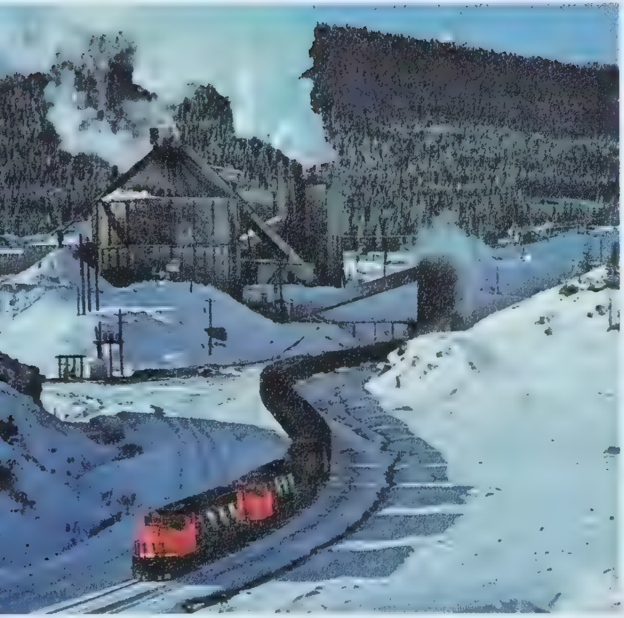
4. Subsequent Event

Negotiations are in progress to formally establish a CN/CP Telecommunications partnership effective January 1, 1980. For personnel transferring to the partnership, it is contemplated that a separate pension fund will be established. The portion of the Pension Trust Funds relating to these employees will be transferred to the CN/CP Telecommunications pension fund in accordance with the eventual agreement.

Design: Shanks Design
Major photography: Daniel Wiener
Other photography: Harold Heron
Eric Ash
Chris Malazdrewicz

CN

across Canada...



CN Rail is responsible for the Canadian railway freight activities of the CN System. In physical size, number of employees and contribution to System revenues it is by far the largest and most productive division of today's modernized and restructured Canadian National. Revenues of CN Rail in 1978 were $2.0 billion, an improvement of 10% over the previous year. Revenue ton miles (a measure of traffic volume) reached a record 73.9 billion in 1978. With its trains displaying the familiar CN logo throughout Canada and far into the United States, CN Rail uses the best of modern technology to carry on a long tradition of efficient and innovative railroading in the service of the Canadian nation.

CN
Rail

Two-way trade with the United States is vital to the economy of Canada. CN's U.S. subsidiary — Grand Trunk Corporation — plays an important role in supporting and stimulating this trade. Grand Trunk Corporation is a holding company for three railroads which operate more than 1,800 miles of mainline track in 10 U.S. states and interconnect with the rest of the North American rail system. The railroads are the Grand Trunk Western, which connects CN Rail with the automotive, food processing and industrial centres of Michigan and Illinois; the Duluth, Winnipeg and Pacific Railroad which connects to the U.S. Midwest; the Central Vermont Railway which connects with New York and the New England States.

Grand Trunk Corporation

CN Telecommunications, an important part of the modern communications system of Canada, grew out of the traditional expertise of railroaders in signalling and communication over long distances. The division still provides the special communication links needed for CN's railway operations. But it also operates commercial telephone networks in eastern and northern Canada and, in partnership with Canadian Pacific (Canada's other major railway), provides modern telecommunications services, across Canada and to and from most of the world. CNCP Telecommunications introduced Telex to North America in 1956 and in the early 1960's the joint company built a microwave transmission network from coast to coast. CN Telecommunications is a profit centre for CN, with revenues of $155 million in 1978.

CN
Telecommunications

CN's trucking division is made up of 10 separate companies which operate about 3,400 tractor-trailers, tankers and local-delivery trucks on highway routes throughout Canada. About 90% of the traffic carried is general freight but the division is also equipped to carry materials requiring special handling, such as livestock and bulk liquids.
CN Trucking hauls most loads directly from shipper to customer but its vehicles also combine with CN Rail's piggyback and container services for long-distance deliveries. About 3.6% of Canada's highway freight traffic is handled by CN Trucking.
The division has more than 1,600 employees and last year spent more than $6 million for new equipment.

CN
Trucking

Canadian National has had a railway express service for parcels, packages and less-than-carload shipments since 1865. But the CN Express of today — an integrated road/rail transportation network which handles shipments from one up to 20,000 pounds — was set up in 1976 as part of the restructuring of the company into separate divisions accountable for their own activities. The 5,500 employees of CN Express currently handle about eight million shipments (more than 20 million separate pieces) annually. Transport may be by the traditional rail mode but, depending on the needs of the shipper, is more and more likely to be moved by road or by air. A secondary, but important function of CN Express is to provide services for other divisions of CN at commercially competitive rates.

CN
Express

Canadian National owns eight major hotels with more than 3,700 guest rooms across Canada. Many can be classified as "grand hotels", built to the "luxury" standards of railroads in an earlier day. All have been thoroughly renovated to modern requirements of comfort and convenience.

Six of the hotels, including the famed Jasper Park Lodge in the Canadian Rockies and the historic Château Laurier in Ottawa, are managed by a CN division, CN Hotels. In addition CN Hotels manages the 212-room Beauséjour Hotel in Moncton, N.B. for another owner and also operates the five restaurants and lounges at the landmark CN Tower in Toronto. Two other large hotels — the Queen Elizabeth in Montreal and Hotel Vancouver — are owned by CN and managed by Hilton Canada Ltd.

CN
Hotels

On behalf of the government of Canada, CN Marine provides vital shipping services on Canada's East Coast and forms a particularly important link with the province of Newfoundland. Its vessels are in ferry service to Newfoundland and Prince Edward Island and provide freight and passenger service along the coast of Newfoundland and Labrador. CN Marine also operates ferry services in New Brunswick and between Yarmouth (N.S.) and Portland and Bar Harbor in the United States. About 3,469 employees last year moved more than two million passengers, 880,000 motor vehicles and 46,000 rail cars via the various services of the division.

CN
Marine

around the world

What CN does in Canada has its effect in many parts of the world — in places where CN staff people or agents represent the company's interests, contribute to the strength of the local economy and make the name of Canada well and favourably known.